



Tonya W. Conley
Assistant General Attorney

July 5, 2007

By E-filing

The Honorable Vernon A. Williams
Secretary
Surface Transportation Board
395 E. Street, S.W.
Washington, D.C. 20423-001

Re: STB Ex Parte No. 672 – Rail Transportation Of Resources Critical To The
Nation's Energy Supply

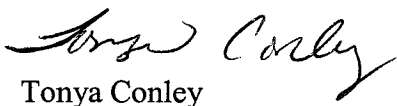
Dear Mr. Williams:

Enclosed for filing in the above proceeding are the comments of Jack Koraleski,
Executive Vice President of Marketing and Sales of Union Pacific Railroad Company.

Please direct any questions about this notice or Union Pacific's participation to me at
(402) 544-3015 or twconley@up.com.

Thank you for your assistance.

Sincerely,


Tonya Conley

**BEFORE THE
SURFACE TRANSPORTATION BOARD**

Ex Parte No. 672

**RAIL TRANSPORTATION OF RESOURCES CRITICAL
TO THE NATION'S ENERGY SUPPLY**

**STATEMENT OF JACK KORALESKI
EXECUTIVE VICE PRESIDENT OF MARKETING AND SALES
UNION PACIFIC RAILROAD COMPANY**

My name is Jack Koraleski. I am Executive Vice President of Marketing and Sales for Union Pacific Railroad Company ("UP"). I am responsible for the marketing and sales efforts for all of our commodity groups. The mission of the Marketing and Sales Department is to determine our customers' transportation needs and develop service products that increase customer satisfaction. I am pleased to have the opportunity to discuss how we are working to meet the demands of our coal and ethanol customers today and preparing for the future.

UP recognizes and is committed to fulfilling its role in meeting the nation's energy needs. I will cover three areas in my statement. First, I will discuss our current ability and future plans to transport coal. Second, I will discuss our ethanol transportation. Finally, I will discuss some external risks that threaten the efficient transportation of energy resources.

I. Coal Transportation on UP.

A. UP Coal Network

UP originates coal in the Southern Powder River Basin ('SPRB') and the Hanna Basin in Wyoming, the Uinta Basin in Colorado and Utah, and in Illinois. We deliver that

coal to destinations dispersed over 17 western states. (See Exhibit A) In addition, we haul coal to several river and lake terminals and interchange with connecting railroad carriers in order to serve customers that UP does not reach in the Midwest and eastern U.S. SPRB coal accounts for 72% of our carloads. Colorado and Utah originate 17%. Southern Wyoming, Illinois and coke account for the remaining 11%. In 2006, UP transported 265 million tons of coal and coke by originating an average of 51.3 trainloads per day.

B. UP's Success in Meeting Increased Demand for Coal.

UP's commitment to transporting coal is demonstrated by our steady increase in volume of coal transported and the investment we have made to achieve that growth. Since our first full year in the SPRB in 1985, UP (and its predecessor Chicago & North Western Transportation Co.) increased annual volume from 19 million tons to 194 million tons in 2006. This is a compound annual growth rate of 12%. Colorado and Utah volume increased 17% from 10 trains per day in 1996 when we acquired the Southern Pacific to 11.7 trains per day today. At any given time, we have approximately 400 coal trains operating over the UP network.

We devoted enormous resources to achieve that growth. UP invested \$7.9 billion between 1997 and 2006 to install track and terminal capacity, acquire locomotives and coal cars, and accelerated maintenance program on the rail, ties and ballast depleted by the pounding of the heavy coal trains. We also applied ingenuity and persistence to wring as much productivity as possible out of those assets. In the SPRB, tons per train have climbed 26 % since 1995 due to our use of distributed power and incentives to customers to supply heavy load capable aluminum cars. We widened the distance between tracks

when we built new track on our coal corridors to allow coal trains to continue to move while adjoining track is maintained.

C. UP is a Robust Link in the Coal Supply Chain.

The history of growth and investment demonstrates that UP is positioned to meet the needs of coal shippers today. Coal supplies are healthy and UP is improving its ability to move coal, but ultimately meeting our nation's need for coal depends on all links of the supply chain. After reviewing current coal deliveries, I'll describe the challenges the supply chain has encountered this year, and then discuss UP's efforts to strengthen that supply chain.

Coal stockpiles at utilities prove that the railroads have been an effective part of the supply chain. Coal stockpiles in March of 2007 were 28% higher than in March 2006.¹ Despite extreme blizzards and flooding this year (and flooding continues in Kansas today), UP originated 93% of coal demand year to date as measured by National Coal Transportation ("NCTA") forecast process. We were prepared to move more, but producers encountered a variety of obstacles to production in both the SPRB and Colorado. In the SPRB, producers' problems with weather and production caused hundreds of the missed loadings during the first half of 2007.

Snow and rain have been unusually heavy in 2007, which caused lingering problems for the mines that continue today, as well as some disruptions to rail service. The mines experienced water in the coal pits, shortage of parts, broken trucks, crusher and conveyor problems, broken shovels and other mine equipment breakdowns that resulted in missed loadings.

¹ Energy Information Association, *Quarterly Coal Report* (June 19, 2007),

The receivers—utilities, river transloading terminals, and coal burning industries— also had difficulties that disrupted deliveries. Deliveries were delayed and cycle times lengthened. Utilization of receiver equipment was decreased due to utility plant outages, plant breakdowns, broken unloading equipment or conveyor belts, or other equipment failures. Problems at the receiving facilities cause congestion on our main line when our trains have to wait for hours or even days, to be brought into the utility or river terminal. Trainloads held near the destination because the receiver cannot accept the load reduces the tons delivered.

While we play a critical role, UP is only one link in the logistics chain for coal. The railroads, utilities and other consumers, and mines must work together effectively and efficiently to provide the energy America needs. UP works with the mines and receivers to mitigate the effect of weather and other unexpected interruptions. For example, UP developed the Flexible Loading Improvement Program (F.L.I.P.), which prearranges with customers and mines alternate loading options in case of an unplanned mine outage. If a customer is scheduled to have a train loaded at a specific mine and that mine has an outage, UP will divert that train to a prearranged alternate mine for loading. The F.L.I.P. program prevents customer rolling stock from losing utilization and keeps the supply chain moving.

UP continues to improve efficiency by significantly improving its coal train processing capacity at North Platte, our primary servicing facility, and reducing average dwell time. At North Platte, for example, UP developed a process for switching out defective wheels on cars while the train is still intact. The wheel set can be replaced in less than ten minutes as compared to the hours required to switch the car out of the train

and insert a replacement car. This process allows shippers to load longer trains because the empty trains do not lose cars set out for replacement of bad wheels while returning to the mine for loading. Additionally, the process reduces switching delays, car repair time, and fleet size. Our customers benefit by getting better equipment utilization. We also set an all-time system record of 15,460 tons per train in April, which gives the customer more coal in fewer turns of their equipment.

D. UP is Preparing for the Future.

UP is committed to meeting future demand for coal. The CANAC² recommendations for adding new capacity on the SPRB Joint Line are being implemented, with the new 43-mile third main line on the north end of the Joint Line nearing completion and a 31-mile fourth main line near Logan Hill scheduled to be completed by the end of the year, except for crossovers. (See Exhibit B) These improvements are big first steps toward increasing the capacity in order to move the 490 million tons projected for the SPRB for 2010.³

UP is also investing in other parts of its network that are critical to either originating more coal or moving it efficiently to our customers. (See Exhibit C) UP is completing a third main track in North Platte Yard and is expanding its Bill Yard on the SPRB Joint Line and the Beverly Yard in Cedar Rapids, Iowa. UP is steadily adding Centralized Traffic Control (“CTC”) in eastern Nebraska and eastern Iowa and will soon have a double-track CTC all the way from the SPRB mines to Chicago. Sidings are being added on the Yoder Sub, which UP uses as an alternate route for returning empty

² CANAC, *Southern Powder River Basin BNSF/UP Joint Line Capacity Analysis* (December 15, 2006),

trains to the SPRB. The sidings will increase velocity by allowing trains to advance on the subdivision and pass each other rather than waiting until one train completely clears the subdivision. Gasconade Bridge between Kansas City and St. Louis, a key coal corridor for both the SPRB and Colorado, is being double tracked. The Powder River Subdivision in eastern Wyoming is being triple tracked at Myles Hill in 2007. That is the steepest section of our coal line.

Additionally, UP is collaborating with the receivers and the mines to improve the efficiency of the coal supply chain. We have been encouraging the mines to complete the twenty additional tracks (referred to as “landing spots”) recommended by CANAC. Eleven additional landing spots have been added or are planned for completion by the mines by year-end 2008. These landing spots will help keep the Joint Line fluid, because trains will not be forced to wait in yards or park on the Joint Line waiting to get into the mine for loading. Additionally, we encouraged receivers to use aluminum cars rather than steel cars because they can hold more tons per car. We are also exploring other collaborative efforts to improve efficiency, such as encouraging utilities to construct landing spots at their facilities. These avoid trains being parked on the main line while utilities are unloading. We are also collaborating with receivers to implement electronic notification of estimated train delivery and release times to reduce dwell times and increase velocity.

UP is committed to the safe and efficient transportation of coal. Its commitment is reflected in its aggressive capital investment plan, its continuous improvement initiatives, and its collaborative approach to eliminating inefficiencies in the coal supply chain. We will continue to work with the members of the coal supply chain to mitigate

³ CANAC, *supra* note 2.

the many variables that impact coal production, transportation and unloading performance in a manner that produces greater supply chain reliability.

II. Ethanol Transportation on UP.

A. UP's Ethanol Network.

UP is dedicated to supporting this nation's development and use of biofuels, as demonstrated by our heavy investment and efforts to grow our ethanol business. Today, our rail network serves 50 ethanol production facilities throughout Iowa, Kansas, Minnesota, Missouri and Nebraska. Another 35 potential ethanol facilities are either in development or in the construction phase.

The growth of ethanol was far more rapid than experts predicted, and UP augmented its ethanol capacity in response. Ethanol production capacity on UP's network will increase from 750 million gallons in 2000 to an estimated 5 billion gallons in 2008. UP currently accesses 3.5 billion gallons of ethanol production and transports over 1.3 billion gallons per year. Carload projections for 2007 indicate growth of more than 100% over 2005 levels and shipments are expected to surge an estimated 20% to 40% in both 2008 and 2009. UP is working with the ethanol industry to manage this growth.

B. UP is Collaborating with the Ethanol Industry.

UP is also actively seeking opportunities to work with industry to maximize efficiencies for current shipments. For example, to relieve congestion in our Phoenix yard and expedite deliveries, UP and industry collaborated on an efficiency initiative called Phoenix Ethanol Terminal Exchange ("PETE") program. PETE was designed to

reduce the amount of switching required for ethanol cars by reducing delivery time and improving the turn time on customer's cars. PETE is an ethanol carload pooling program that treats each carload of ethanol as fungible with any other. When a PETE participant requests that a carload of ethanol be delivered, we move the closest PETE-participating ethanol railcar to the receiver rather than doing extensive switching in the yard to find the specific carload of ethanol that belongs to this receiver.

Similarly, UP plans to initiate an "origin ethanol tank car pool" concept that will treat empty ethanol tank cars as fungible. When a participating shipper requests empty tank cars, the most conveniently available tank cars will be taken to the participating shipper. This program would produce the same efficiencies as PETE, but at the origins.

C. UP is Preparing for the Future of Ethanol.

UP faces several challenges as it strives to keep pace with the growing ethanol market. We must make sure that the entire network maintains its fluidity as new production facilities are added to our network. Unit trains are the most efficient way to transport ethanol, but facilities that can unload or accept unit trains are lacking. Additionally, we are investing substantial amounts of capital in an industry full of uncertainties and must be strategic in our decision making.

Ensuring that ethanol facilities have the appropriate infrastructure for their locations on our network is critical to UP's ability to maintain a fluid network and provide the facility adequate rail service. UP's network is near capacity on many routes and the rapid increase in ethanol shipments has the potential to cause further congestion. In order to manage the growth of ethanol facilities on its network, UP has implemented guidelines for new facilities that establish expectations about the rail infrastructure

requirements of each location. In addition, UP hired a dedicated employee to assist ethanol producers in identifying potential locations for their facilities and determining appropriate rail infrastructure.

To encourage efficiency and the development of unit-train-capable destinations, UP offers incentives to industry to ship via unit trains. These incentives have helped UP increase its operation of ethanol unit trains from 0 unit trains per month in 2005 to an average of 13 unit trains per month in 2007 with a goal of doubling this number in 2008. The increased use of unit trains decreases the number of cars needed to transport the same amount of ethanol. This allows industry to reduce its fleet size.

However, the capacity of destination unloading facilities is another significant challenge. Most destination unloading facilities do not have the infrastructure necessary to accept unit trains. In fact, only one facility on the UP network and only five in the country can accept full trains. While the unloading terminals are the fuel industry's responsibility, we are working with customers to try to develop high volume, high speed unloading terminals. Unfortunately, most destination unloading terminals are located in densely populated urban areas and do not have land available to add the required infrastructure. Additionally, it is difficult to find land to build unit train unloading terminals within proximity of destination storage facilities that would allow ethanol to be efficiently trucked or piped to those destination facilities.

UP helped address a situation like this in the Dallas/Ft. Worth area. In May 2006, UP invested over \$2 million and successfully worked with industry to address the immediate needs of the Dallas/Ft. Worth marketplace. A short term unloading location was developed in our rail yard while a permanent unload facility was constructed. This

facility will open in October of this year and will have the capability to unload an eighty-car unit train in twenty-four hours. Additionally, UP has also invested \$5 million to triple the capacity of the Selby, CA, unloading terminal. The terminal's capacity increased from ten cars to thirty cars.

UP is committing significant resources to facilitating the efficient movement of ethanol on its network even though ethanol's future is uncertain. UP invested over \$60 million in capacity improvements in ethanol-originating areas in 2007. We plan an additional \$50 million in 2008 for increased terminal and rail siding capacity directly related to increased ethanol shipments. These investments present a significant risk, given the uncertainty of continued government subsidies for ethanol and the impact of corn prices on the viability of corn-based ethanol as a significant fuel source. Additionally, other biofuels, which will not necessarily be produced in the same regions as corn-based ethanol, could potentially supply a longer term biofuel solution.

UP has invested heavily in its ethanol business and is firmly committed to the transportation of ethanol. UP understands that efficient rail service is critical to the viability of ethanol as a long term alternate fuel source in this country. In order to provide efficient rail service, UP must continue to invest in its network and shippers must work with us to maintain fluidity and efficiency in the overall network.

III. Threats to Effective Rail Transportation for Critical Energy Resources

A. Reregulation

UP recognizes that delivering critical energy resources to market is an important responsibility. UP is investing in its network so that it can continue to bring coal and

ethanol to market safely and efficiently and meet the growing demand for energy.

Continued investment requires adequate returns on investment. Rates must be at reinvestable levels so that UP can add new capacity to its network and maintain existing infrastructure.

Reregulation would be disastrous for the railroads' ability to sustain their networks and expand to handle growing energy business. Ultimately it would cripple the ethanol and coal supply chains. If reregulation or other factors make coal or ethanol revenues inadequate, we could not continue to support investment for those commodities at the levels required to meet increasing demand and would be forced to curtail investments across our system.

Reregulation legislation threatens rail service and infrastructure investment in a variety of ways. For example, the proposed House reregulation bill (H.R. 2125) would allow customers to dictate the route of their shipment and also require railroads to let other railroads use their infrastructure at rates that would not adequately compensate them for capital investments. Because the fundamental objective of the bill is to reduce rates to levels that will not cover the total cost of maintaining a national rail system, this bill would reduce service in a number of ways, not improve it.

First, UP, like other rail carriers, carefully plans where to add capacity. Once laid, tracks are a sunk investment. If shippers are allowed to determine the routing of their commodities, they would be able to divert traffic from the terminals and lines where capacity has been added to lines with less capacity in order to create joint routes that on a map appear to meet their needs. This would deprive the railroads of returns on the investments that they have made and cripple the ability of railroads to direct limited

capital dollars to where they will be needed. It would also prevent railroads from coordinating their transportation plans to improve operations. The resulting mismatch of traffic flows with investment and loss of operational control will lead to declining service.

Second, requiring railroads to allow competitors to use their tracks without adequate compensation discourages capital investment. Proposed legislation would require railroads to let other railroads use segments of their infrastructure at a compensation rate set by the government, which would fail to consider the value of investment made by the owning railroad in its network. Essentially, this scheme would require that the railroad that owns the track accept regulated compensation for only short segments of track, even though the owning railroad must pay the entire cost of maintaining a large network. Under this scheme, UP would not earn a reasonable return on total capital and would not be able to continue to sustain capital investment. Investors would walk away from the railroads.

A third major defect of the proposed legislation, among many others, is to base rates solely on railroad costs. This is the system that nearly destroyed the American rail system from the 1950s through the 1970s. Cost-based rate making discourages efficiency by penalizing railroads for reducing costs. Railroads have no incentive to achieve efficiency when every dollar saved costs them more than a dollar in revenue. It also prevents railroads from responding to market conditions and makes them less competitive, not more. Our customers would come to regret this type of ratemaking as rail service deteriorates.

B. Not In My Backyard ("NIMBY")

Another limitation on rail facilities that is becoming increasingly significant is the “not-in-my-backyard” problem. Railroads were once welcomed into communities as an engine of development, but the recent trend has been for communities to erect roadblocks to prevent railroad expansion. We face more and more resistance from communities that view a railroad only as reducing their quality of life and overlook that railroads are essential to maintaining that quality of life.

One example of how this phenomenon affects energy transportation occurred in Sikeston, Missouri, last fall. UP and BNSF had negotiated a line swap involving a BNSF line that ran through Sikeston. UP was going to rehabilitate this line and connect it to our main line from Houston to East St. Louis. This would have given UP 36 miles of double track, which would have facilitated directional running, thereby eliminating a bottleneck in a critical energy corridor. Town officials were originally supportive, but changed their position once public pressure against the project mounted. As the town increased its demands, the project became prohibitively expensive and we abandoned it.

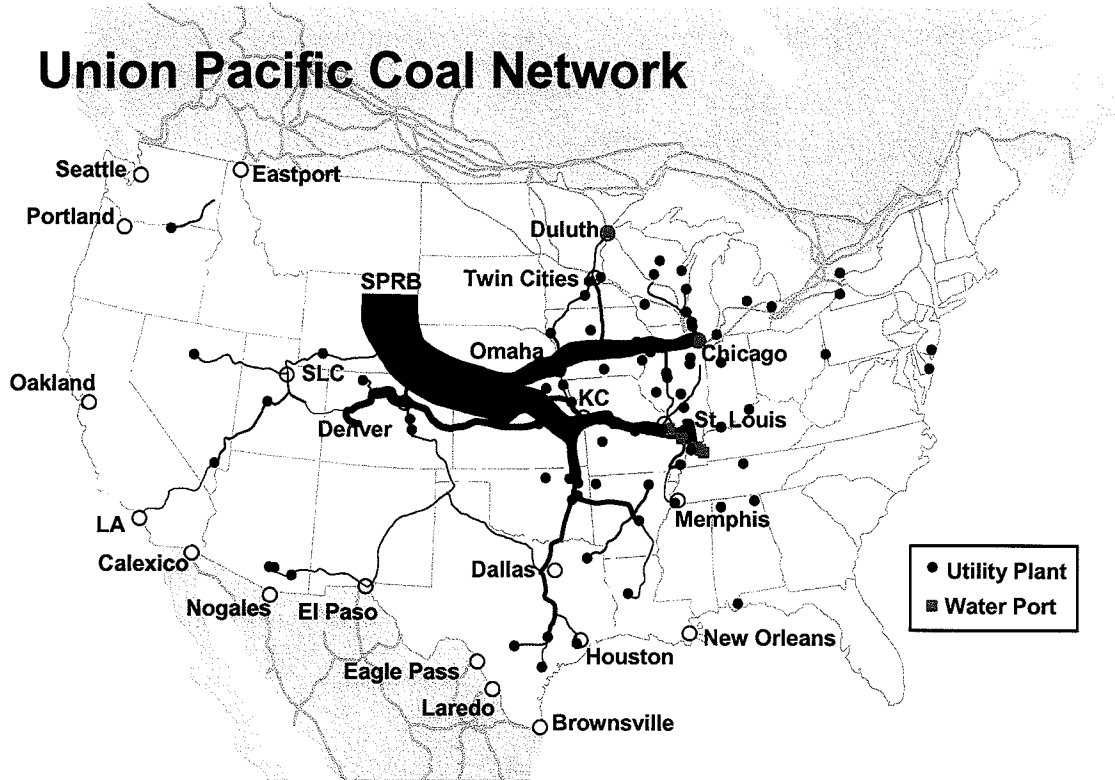
An additional example is currently occurring in Arizona on our Sunset line which connects Los Angeles with El Paso and points beyond. UP is attempting to double track our main line that goes through Arizona on an expedited basis, and to construct an important new rail yard. The improvements, required in part for ethanol movements to the Phoenix and Los Angeles markets, are encountering delays due to local threats to impose huge additional costs on the project. We are more than willing to work with communities and make our fair contribution to mitigating environmental effects; but, if we cannot make investments that will inevitably be near someone’s backyard, the entire country will suffer the consequences.

IV. Conclusion

Union Pacific is proud of its role as part of the supply chain for this nation's critical energy resources. UP is very proud of the resilience and dedication of our employees to meet the challenges in moving hundreds of trains over thousands of miles of an outdoor assembly line. UP strives everyday to transport energy resources safely and efficiently between the other links in the chain. UP is making substantial investments in its infrastructure to create capacity that keeps up with demand and is committed to doing so as long as such investment can be supported with adequate returns.

Exhibit A

Union Pacific Coal Network



Canac SPRB Study

Key Elements

- **23 Additional Mine Slots**
 - Increases Total from 41 to 64
- **Increase Rail Buffer / Staging Capacity at Donkey Creek (BNSF) and Bill (UP)**
- **Construct 94 Miles of Additional 3rd and 4th MT**
- **Mainline bypass around Bill yard**

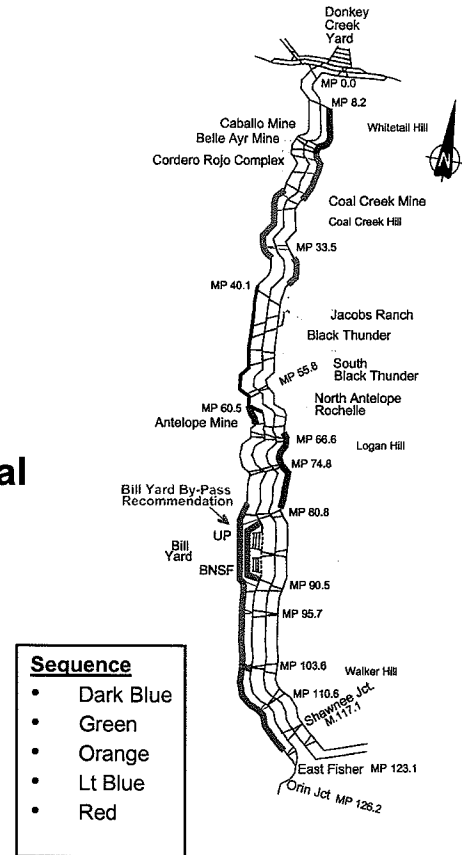


Exhibit C

Coal Corridor Investments

2007 Projects

